Franchise Tax Board

# ANALYSIS OF AMENDED BILL

Author: Kaloogian | Analyst: Garnier | Bill Number: AB 130

Related Bills: See Legislative History | Telephone: 845-5322 | Amended Date: 03/03/99

Attorney: Doug Bramhall | Sponsor:

**SUBJECT**: Health Insurance Deduction/Individuals/100% of Amount Paid

_____ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _________.

X AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

_____ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _________.

_____ FURTHER AMENDMENTS NECESSARY.

_____ DEPARTMENT POSITION CHANGED TO ________________________.

_____ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED/AMENDED ___________ STILL APPLIES.

X OTHER - See comments below.

## SUMMARY OF BILL

Under the Personal Income Tax Law (PITL), this bill would allow all individuals to deduct from gross income up to 100% of the cost of health insurance, up to the sum of the earned income of the taxpayer and taxpayer's spouse.

## SUMMARY OF AMENDMENT

As introduced, the bill would have phased in a state health insurance deduction up to 100% beginning in the year 2007 by using the federal self-employed health insurance deduction phase-in percentages in effect under federal law in 1997. The amendment would phase-in the state deduction to 100% beginning in the year 2003 (current federal self-employed health deduction phase-in percentages.)

Except for the discussion of the phase-in percentage and revenue estimate, the bill analysis, dated January 6, 1999, still applies.

## EFFECTIVE DATE

As a tax levy, this bill would be effective upon enactment and operative for taxable years beginning on or after January 1, 1999.

## LEGISLATIVE HISTORY

AB 430 (1999); SB 305, SB 1991, AB 2107, AB 2131 (1997/98)

Board Position:

_____ S _____ NA _____ NP
_____ SA _____ O _____ NAR
_____ N _____ OUA X PENDING

Department Director: Johnnie Lou Rosas | Date: 3/10/1999

## SPECIFIC FINDINGS

**This bill** would increase the percentage of health insurance deductible by employed individuals (with certain limitations) from the 1999 level of 40% to 100% in 2003, as follows:

| | |
|---|---|
| 1999 through 2001 | 60% |
| 2002 | 70% |
| 2003 and thereafter | 100% |

These phase-in amounts follow current federal self-employed health insurance deduction phase-in amounts.

## FISCAL IMPACT

### Departmental Costs

The provisions of the bill would not significantly impact the department's costs.

### Tax Revenue Estimate

Revenue losses from this provision are estimated to be as shown in the following table.

| Fiscal Year Cash Flow Impact<br>Effective 1/1/99<br>Enacted after 6/30/99<br>$ Millions | | | | |
|---|---|---|---|---|
| 1999-0 | 2000-01 | 2001-02 | 2002-03 | 2003-04 |
| ($260) | ($220) | ($250) | ($350) | ($500) |

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

### Tax Revenue Discussion

The revenue impact of this provision will be determined by the number of individuals who pay any portion of their health insurance premiums, the cost of premiums, and the average marginal tax rate applicable to the deduction amounts.

This estimate was developed in the following steps. First, according to the 1996 U.S. Statistical Abstract, total national health insurance premium payments by households was $70.6 billion for 1994. Second, this number was grown 7% per year to yield $99 billion for 1999. Third, it is estimated that California represents 12% of the national amounts, generating approximately $12 billion in qualified insurance premium payments. Fourth, this number was reduced by 20% to account for the earned income requirement, leaving approximately $10 billion in qualified insurance payments. Fifth, the amount of current deductions taken under the PITL by taxpayers (i.e. households including self-employed) was calculated to be approximately $1.2 billion for 1999, representing around $53 million in tax reductions for 1999 under current law.

Sixth, the total deduction was calculated at the proposed 60% at a 4.5% marginal tax rate for 1999, generating a $256 million tax loss. These steps resulted in a 1999 estimate of an additional $203 million tax loss. The 1999-0 fiscal year estimate consists of the 1999 tax loss ($203 million) and 25% of the 2000 impact ($217 million) reflecting reduced estimated tax/withholding payments. Seventh, the total deduction was then calculated at various percentages from 60% phasing up to 100% by the year 2003. The revenue estimate for years after 1999-0 were grown to reflect a 7% increase in premiums based on current historical averages.

The estimated revenue loss in the original bill was $560 for 2007, the year when the deductible percentage of 100% would have been reached; that number included a 7% annual growth rate between 2003 (the year at which 100% is reached in this bill) and the year 2007.

## BOARD POSITION

Pending.